

April 13, 2015

The Honorable Chuck Grassley
Co-Chair, Individual Income Tax
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Enzi
Co-Chair, Individual Income Tax
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Debbie Stabenow
Co-Chair, Individual Income Tax
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Grassley, Enzi and Stabenow:

Farm Bureau supports replacing the current federal income tax with a fair and equitable tax system that encourages success, savings, investment and entrepreneurship. We believe that the new code should be simple, transparent, revenue-neutral and fair to agricultural producers.

We commend the Committee on Finance on its methodical approach to tax reform by forming working groups to review current law and to solicit input from stakeholders. The American Farm Bureau Federation (Farm Bureau) is the nation's largest general farm organization, representing agricultural producers of nearly every type of crop and livestock across all 50 states and Puerto Rico. We appreciate the opportunity to submit comments about the burden of the estate tax on family farm and ranch businesses to the Individual Income Tax Working Group.

America values family-owned farms and ranches because of the food, fiber, and fuel they produce, the contribution that agriculture makes to job creation and the economy, and the open space that farming and ranching protects. Yet, our nation's estate tax policy can be in direct conflict with the desire to preserve and protect our nation's family-owned farms and ranches.

Total agriculture production now totals 2.1 trillion pounds of food and fiber annually, enough for each farmer to feed 169 people. While this production accounts for less than 1 percent of U.S. gross domestic product, it has economic significance beyond the farm gate. The manufacturing of farm machinery and fertilizer is mostly done in metro counties, while farm services and food processing are disproportionately located in non-metro counties.

Farm Bureau is very appreciative of the compromise reached in 2010 between Congress and the president, with a \$5 million exemption indexed to inflation, a maximum rate of 35 percent, provisions for spousal transfers, and continuation of stepped-up basis. But our goal continues to be full repeal of the estate tax because we believe this is the best solution to protect all family-owned farm and ranch businesses from the estate tax.

Individuals, family partnerships and family corporations own about 97 percent of our nation's over 2 million farms and ranches. When estate taxes on an agricultural business exceed cash and other liquid assets, surviving family partners may be forced to sell land, buildings or equipment needed to keep their businesses running. Additionally, when business owners are put in a position where they are forced to sell business assets to pay the tax, the result can be assets sold at "fire sale prices," which further hurts the prospects that surviving family members will be able to carry on the business.

The value of family-owned farms and ranches is usually tied to illiquid assets, such as land, buildings and equipment. With around 90 percent of farm and ranch assets illiquid, producers have few options when it comes to generating cash to pay the estate tax. Recent increases in agriculture cropland values have greatly expanded the number of farms and ranches that now top the estate tax exemption. USDA data shows that ag land values have almost doubled since 2005. In 2012, there were over 90,000 farms in the United States with land and buildings worth more than \$5 million.

The harm caused to our industry by estate taxes is even more distressing when measured against commercial food and fiber production. Eighty-five percent of agriculture products sold are produced and harvested on family farms or ranches. And the 5.7 percent of farms that produce 75 percent of total farm sales are much more likely to have an asset base large enough to trigger estate taxes when a family member dies.

The impact of the estate tax not only comes from the cost of the tax, but also from the cost of estate tax planning. Some like to say that few farmers and ranchers actually pay estate taxes but this is only because they are forced into spending money for financial planners, accountants and attorneys to help them develop succession plans to preserve their businesses. These expenditures plus the cost of life insurance purchased in case estate taxes are owed, deprive farm and ranch businesses of investment capital that could more productively be used for other purposes, including business growth.

The threat of estate taxes, both real and perceived, can also impact the growth and long-term viability of farm and ranch businesses for another reason. To remain efficient and profitable, farmers and ranchers must constantly upgrade their businesses to be responsive to market signals and remain competitive with overseas producers. But some farmers and ranchers are reluctant to expand or to make improvements that could push their farms and ranches over exemption levels. In addition, younger producers may choose to leave the family business in anticipation that their livelihood is jeopardized by estate taxes.

Virtually all of the same difficulties that family-owned farms and ranches face when dealing with the estate tax would be repeated if other taxes were imposed at death. The president's budget proposal to tax capital gains at death would pose an immense hardship for farm and ranch businesses. While the new tax at death would be delayed for inherited small family-owned and operated businesses until the business is sold, this tax obligation would make it harder to borrow for production supplies and capital investment.

The president's budget also proposes to eliminate stepped-up basis. Step-up sets the starting basis (value) of land and buildings at what the property is worth when it is inherited. If this were not allowed, capital gains taxes would be collected on both the increase in value while a person owned the property plus the increase in value during the decedent's ownership. Because farm land and buildings are held for long periods of time during which land values can more than triple, loss of step-up basis would place an incredible new tax burden on farm and ranch families.

Special Use Valuation (Sec. 2032A) allows farmers, ranchers and other business owners the ability to reduce their estate taxes by allowing a limited amount of business property to be valued for its actual use rather than for its highest value use for estate tax purposes. For example, farmland could be valued at its farm value rather than what it would be worth if sold for development. However, many farmers and ranchers are reluctant to use Section 2032A because it is complex and there are significant penalties imposed when the terms of its use are violated.

One deterrent to Sec. 2032A use is that the value of property may not be reduced by more than \$1 million indexed for inflation. This means that if the value of a farm for development purposes was \$8 million and the farm value was \$5 million, the special use value assigned to the property for estate tax purposes would be \$7 million. Another constraint is that part or all of the tax savings from using Sec. 2032A must be paid back if, within ten years, the use of the property is changed or if the property is sold outside of the family. Additionally, the sale of a conservation easement triggers the recapture tax and so does the harvesting of standing timber. More family farms and ranches would be willing to deal with the rigors of compliance if the benefits were greater and restrictions were reduced.

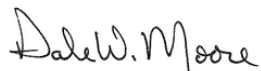
Farm Bureau believes that tax laws must protect, not harm, the family farms that grow America's food and fiber, often for rates of return that are already miniscule compared to almost any other investment they could make. What is needed are tax policies that do not punish capital-intensive businesses like farms and ranches, and that do not hinder sons and daughters from following the agricultural legacy of their parents. For these reasons Farm Bureau continues to advocate for the repeal of estate taxes, the continuation of stepped-up basis and against the imposition of any new taxes at death.

Summary

Farm Bureau supports permanent repeal of federal estate taxes. Until permanent repeal is achieved, the exemption should be increased, indexed for inflation and continue to provide for portability between spouses. Full unlimited stepped-up basis at death must be included in any estate tax reform. Farmland owners should have the option of unlimited current use valuation for estate tax purposes.

Farm Bureau greatly appreciates your consideration of our views on estate taxes and their impact on family farm and ranch businesses. We would be glad to meet with members of the Individual Income Tax Working Group to provide additional information or to discuss our position in greater detail.

Sincerely,

A handwritten signature in cursive script that reads "Dale W. Moore".

Dale Moore
Executive Director
Public Policy